



# **Effective Retail Promotions**

**Presentation to**

**Quick Chek Food Stores**

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**R. J. Reynolds Tobacco Company**

51847 1218

# Designing Effective Retail Promotions

## Presentation Outline

### ➔ How important are Convenience/Gas outlets for the Cigarette Industry

- Current Outlet Importance
- Sales Trends.

### ➔ How do you structure effective promotion offers

- A word about promotion objectives.
- Discount values.
- Determining pack purchase requirements.

**SIDEBAR: Everyday Multi-Pack Pricing**

- Considering Promotion Profit Rationality.

### ➔ Getting to "Win-Win" Promotion Outcomes?

# **Effective Retail Promotions**

**BUSINESS IMPORTANCE AND TRENDS  
BY  
OUTLET**

# Designing Effective Retail Promotions

- ◆ Convenience/Gas outlets account for nearly half of all cigarette sales.

## Percent of Business

Outlets	Cigarette Category		
	Total	Full-Price	Savings
Convenience/Gas	48%	49%	46%
Supermarkets	18%	19%	17%
Discount Member Whse	5%	5%	4%
Drug	5%	6%	3%
Liquor	4%	4%	3%
Cigarette Outlets	11%	8%	19%
All Other	9%	9%	8%

*\* Based on Calendar 1996 data.*

## Designing Effective Retail Promotions

- ◆ There appears to be a substantial volume shift to convenience/gas (CG) and cigarette outlets (CO) over the last two years.

### Cigarette Volume Trends (1995 - 1996)

Outlet	Industry	Full-Price	Savings
Convenience Gas (CG)	+7.4%	+11.1%	-1.9%
Supermarkets (SM)	-15.4%	-13.3%	-20.7%
Discount (DT or MM)	-3.8%	-0.5%	-12.4%
Drug (DG)	-10.4%	-8.4%	-17.9%
Cigarette Outlets (CO)	+32.6%	+42.7%	+22.9%

# **Effective Retail Promotions**

## **THE ELEMENTS OF EFFECTIVE RETAIL PROMOTIONS**

## Question #1: What is the Promotion Objective?

Designing the "Perfect Promotion" must take into account the Objectives.

### Defensive Promotions

- ➔ Promotions designed to defend/hold volume and market share from competitive activity.
- ➔ Inherently unprofitable in the short-term.
- ➔ Focused on the long-term viability of the business.

### Offensive Promotions

- ➔ Promotions designed to build the business.
- ➔ Has both a short- and long-term profitability focus.

## Designing Effective Retail Promotions

- ◆ Convenience/Gas (CG) outlets are consistently more responsive to retail promotions compared to Supermarkets (SM).

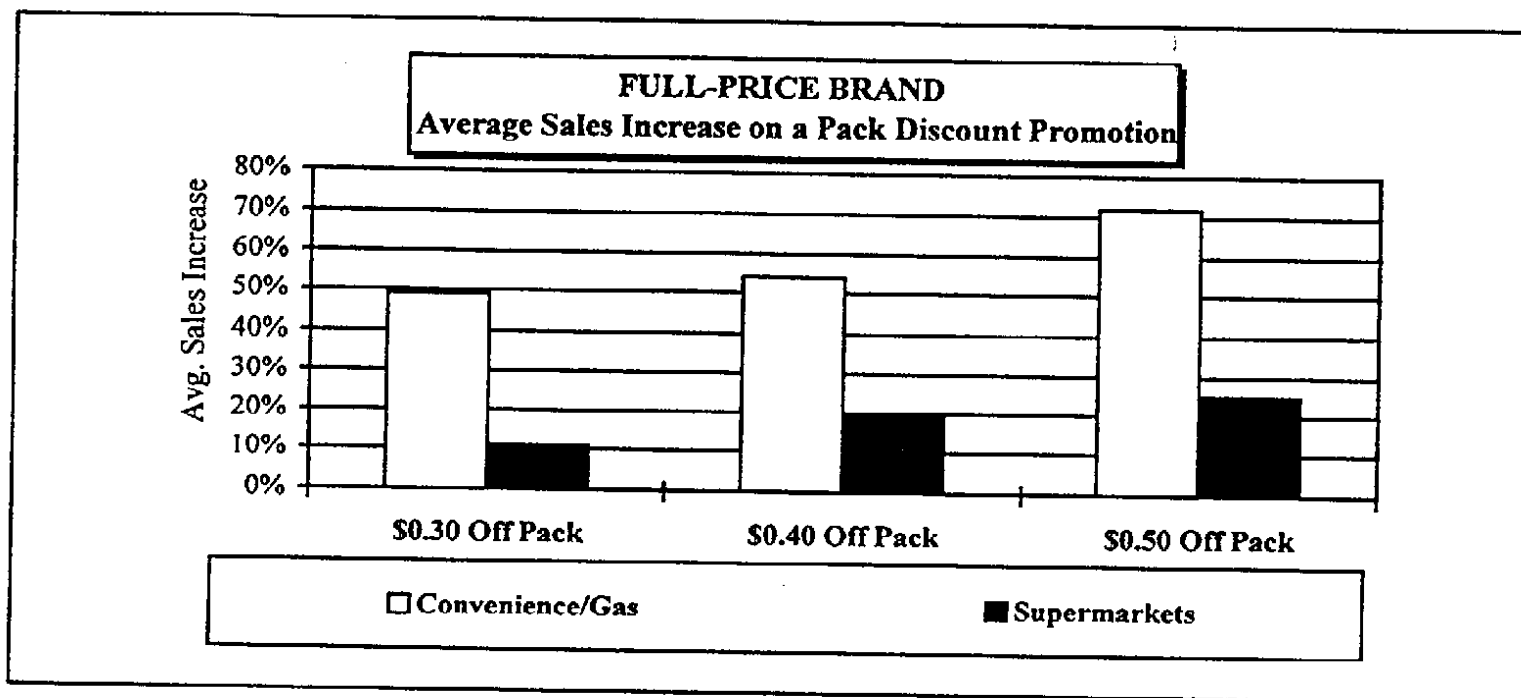
Average Percent Sales Increase on a Retail Promotion

Promotion	Full-Price Brand		Savings Brand	
	SM	CG	SM	CG
Avg. Promotion	46%	56%	44%	71%
Discounts	47%	57%	45%	73%
Premiums	48%	60%	35%	58%



# Designing Effective Retail Promotions

- ◆ Even on equivalent promotions, response in C/G outlets is substantially greater.



## Factors That Drive Promoted Sales Increases

### ➔ Increases are driven by a multitude of factors:

- Discount Values or specific program being implemented.
- Specific pack or carton purchase requirements.
- The in-store conditions where the promotion occurs.
- Outdoor communication and advertising.
- Clerk and store manager support.
- Program tie-ins (e.g. sports or local events, co-promotions, etc.).
- The market/geography where the promotion is executed.
- The brand(s) being promoted.
- Promotion clutter in the store.
- Geo-demographics relative to the store location.

## Sales Response is Determined by a Multitude of Factors

	Lowest Expected Sales Increase	Average Sales Increase	Highest Expected Sales Increase
<b>\$0.20 Off Pack</b>	15%	30%	75%
<b>\$0.30 Off Pack</b>	30%	49%	96%

### *Conditions That Create This*

Low Promotion Visibility  
Weak Promotion Presence  
Poor Price Communication  
Concurrent Competitive Promotions  
High Promoted Price Point

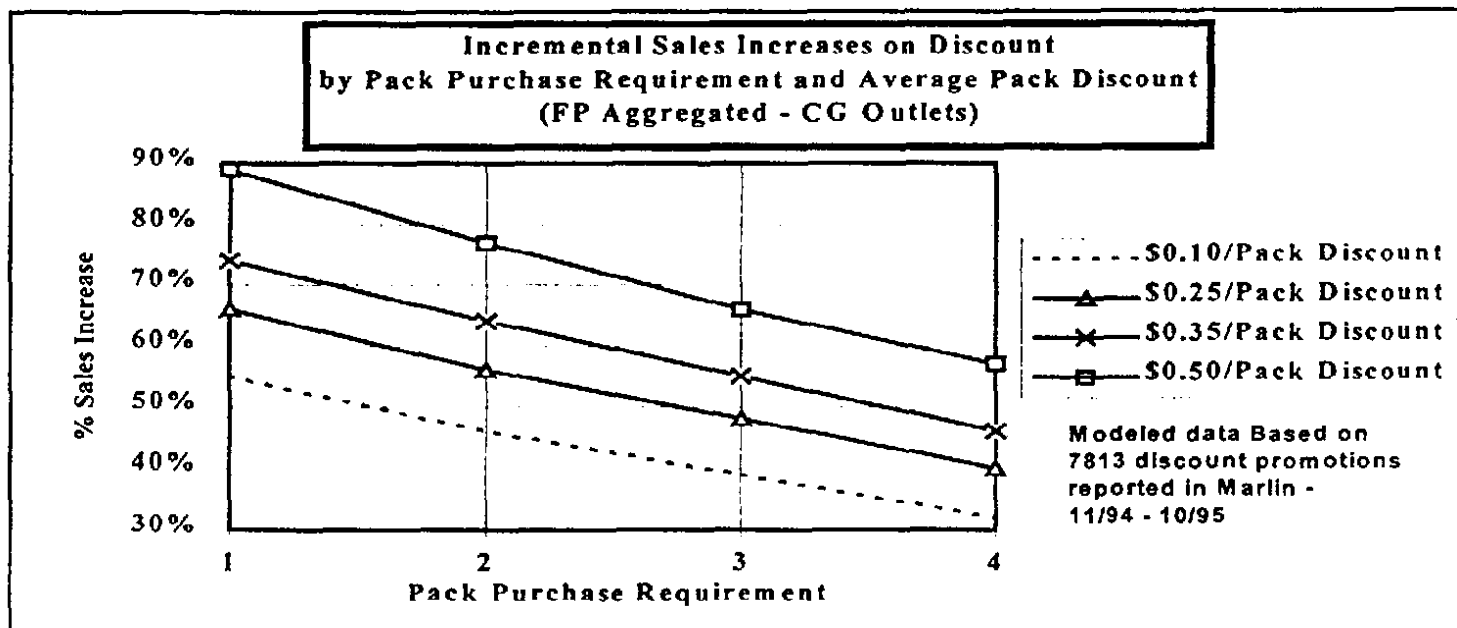
### *Conditions That Create This*

High Promotion Visibility  
Strong Promotion Dominance  
Clear Price Communication  
No Concurrent Competitive Promotions  
Low Promoted Price Point

# Designing Effective Retail Promotion

## Discounts & Pack Purchase Requirements

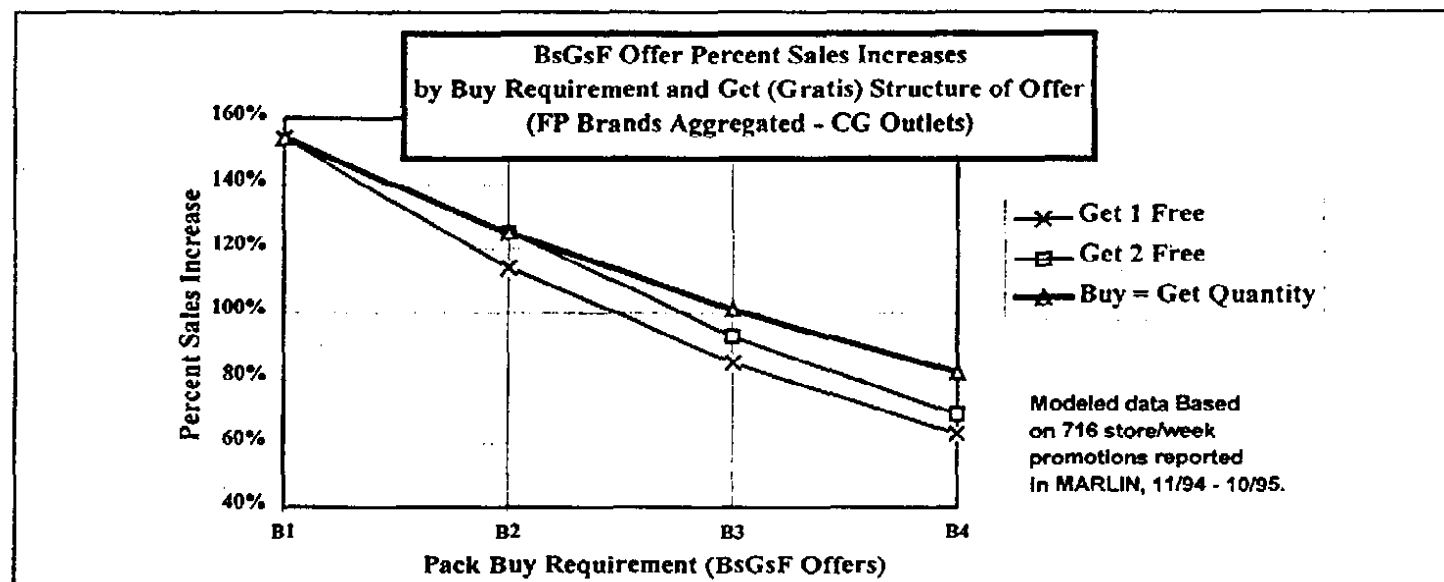
- ◆ Higher discount values lead to greater sales increases.
- ◆ However, even with equivalent per pack discounts, incremental response declines markedly as the purchase requirement increases.



# Designing Effective Retail Promotions

## Pack Purchase Requirements Affect Competitive Participation

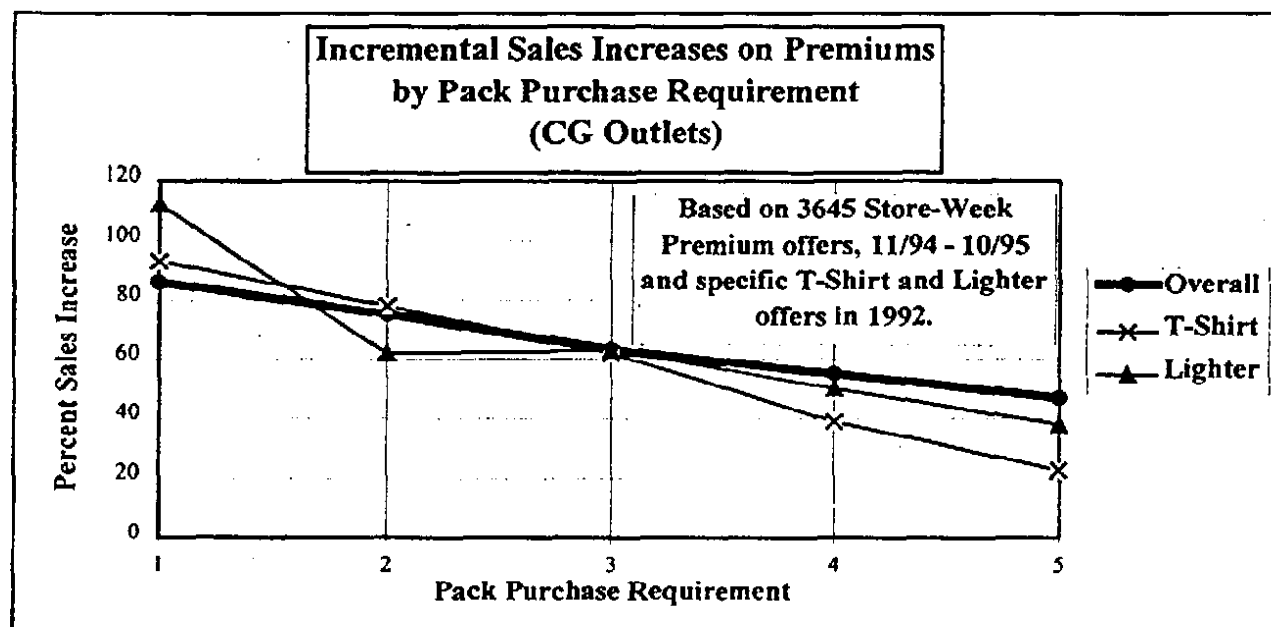
- ◆ The same pattern of promotion response is true of BsGsF offers:
  - Significantly lower response as the buy requirement increases.
  - Greater response to more lucrative promotions.



# Designing Effective Retail Promotions

## Pack Purchase Requirements Affect Competitive Participation

- ◆ Similarly, Incremental purchasing on premium offers decline at a rapid rate as the pack purchase requirement increases.



# Designing Effective Retail Promotions

## Cash Outlay Requirements May Affect Promotion Interest

- ◆ The decreased responsiveness related to increased purchase requirements may be the result of a greater than planned cash outlay forced on consumers.
- ◆ We must consider normal purchasing when planning promotions.

			Cost to Consumer - \$0.30/Pk Discount; Pack Purchase Requirement is:		
Brand	Normal Avg. Pack Purchase	Normal Avg. Cash Outlay per Purchase Occasion	1 Pack (\$0.30 TPR)	2 Packs (\$0.60 TPR)	3 Packs (\$0.90 TPR)
Full-Price Brand	1.5 Packs	\$2.93	\$1.65	\$3.30	\$4.95
Branded Savings Brand	1.7 Packs	\$2.47	\$1.15	\$2.30	\$3.45

NOTE: Assumes a Full-Price base price of \$1.95/pack and a \$1.45/pack base price for Branded Savings. TPR = (T)emporary (P)rice (R)eduction.

## **Effective Retail Promotions**

### **SIDEBAR**

#### **The Issue of Everyday Multi-Pack Pricing**



## Everyday Multi-Pack Pricing

### STRATEGY

- ➔ Reward consumers with a special price contingent on the purchase of multiple packs of cigarettes.
- ➔ Usually requires purchase of 2 - 3 packs on an occasion.
- ➔ May be on selected brands or a category wide offer.

## Everyday Multi-Pack Pricing

### STRATEGIC IMPACT

- ➔ Our experience at Reynolds is that 2 and 3-Pack pricing can be effective if it is well advertised throughout the marketplace
- ➔ This tactic tends to:
  - Pantry load or reward normal purchases of loyal customers.
  - Substantial increment in store traffic if price is lucrative and competitive.
  - Can facilitate shopper loyalty if not matched by competing stores.
- ➔ Since the average CG purchase is 1 - 2 packs, a 3-pack deal may function more as a reward to current buyers.
- \* 2-packs pricing is better to draw store traffic if the economics allow.

## Everyday Multi-Pack Pricing

### STRATEGIC RISK

- ➔ However, multi-pack pricing is not without competitive risk.
- ➔ Strategy can degenerate into a higher cost of business without significant gains if:
  - The value is nominal to consumers - not great enough to induce a store switch.
  - You are matched by competitors, then:
    - \* Nominal sales benefits.
    - \* Substantial negative profit implications.

# **Effective Retail Promotions**

## **Promotion Profitability**

## Designing Effective Retail Promotions

- ◆ Profitability is a key promotion concern.
- ◆ While discount promotions can lead to substantial sales gains, the margin impact can be negative.
- ◆ The critical question is what sales increase needs to be obtained to breakeven.

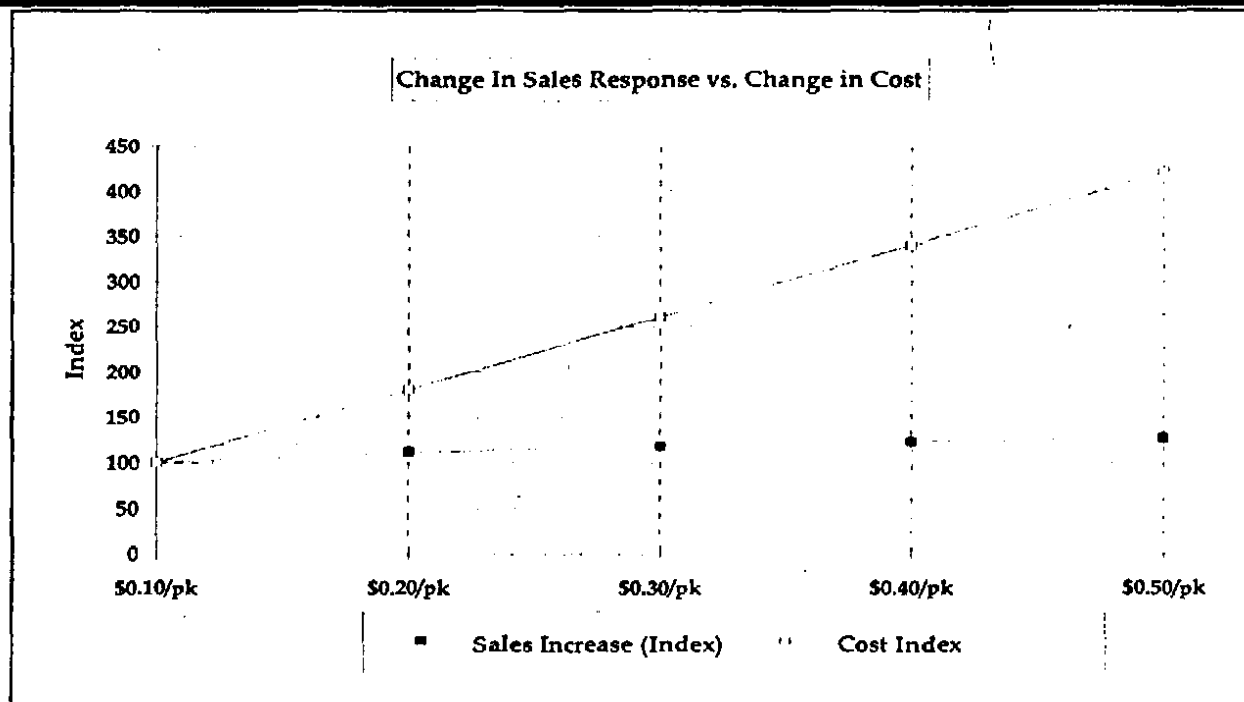
### REQUIRED SALES INCREASE TO BREAKEVEN

Discount Offer	Necessary Sales Increase
\$0.20 Off 1 Pack	67%
\$0.30 Off 1 Pack	150%
\$0.40 Off 1 Pack	400%
\$0.50 Off 2 Packs	100%
\$1.00 Off 3 Packs	200%

\* Assumes gross margin of \$0.50 per pack.

### Designing Effective Retail Promotions

- ➔ Sales increases spawned by greater discount values generally do not offset the escalated cost.
- ➔ We must determine whether a greater strategic or tactical purpose can justify *'below the line'* spending.



# **Effective Retail Promotions**

**Getting to Win-Win  
Promotion Outcomes**

## Getting to Win-Win Promotion Outcomes

- ➡ Mutually beneficial results often require tradeoffs
- ➡ Balancing individual Manufacturer and Retailer perspectives for Win-Win is the key.



## Getting to "Win-Win" Promotion Outcomes

### Cannibalization Means Different Things to Manufacturers & Retailers

SOURCE OF BUSINESS	True Incremental Sales for the Mfr.	True Incremental Sales for the Retailer
<i>Buyers Who Normally Purchase Cigarettes in the Store Running the Promotion</i>		
Buy their usual brand on deal	NO	NO
Switch from another of the Mfr's brands to the one on deal	NO	NO
Switch to a competitive brand on deal	YES	NO
<i>New Cigarette Buyers for the Store Running the Promotion</i>		
Buy their usual brand on deal	NO	YES
Switch from another of the Mfr's brands to the one on deal	NO	YES
Switch to a competitive brand on deal	YES	YES

## Getting to Win-Win Promotion Outcomes

- ◆ As an example, promotion signage may have both upside and downside consequences:
- ◆ Indoor POS signage may:
  - Increase sales on the promoted brand by inducing temporary brand switching (a benefit to the Mfr.).
  - Induce consumers who don't normally buy cigarettes in the store to do so (a benefit to the retailer).
- ◆ Prominent outdoor signage may:
  - Draw consumers into the store who might not normally stop - increasing both cigarette sales and overall ACV (a benefit to the retailer).
  - But, consumers may simply switch outlets with little real gain for the Mfr.
- ◆ The implications are that Win-Win outcomes require tradeoffs, some of which benefit the retailer only and some of which benefit the manufacturer only.

## Getting to Win-Win Promotion Outcomes

Cost-sharing programs may help make effective promotions possible

### Retailer Benefits

- ➔ More lucrative promotions draw increased store traffic.
- ➔ Goal is to increase total store ACV and profits.

### Mfr. Benefits

- ➔ Subsidize unprofitable promotions.
- ➔ More lucrative promotions attract competitive buyers.

## Getting to Win-Win Promotion Outcomes

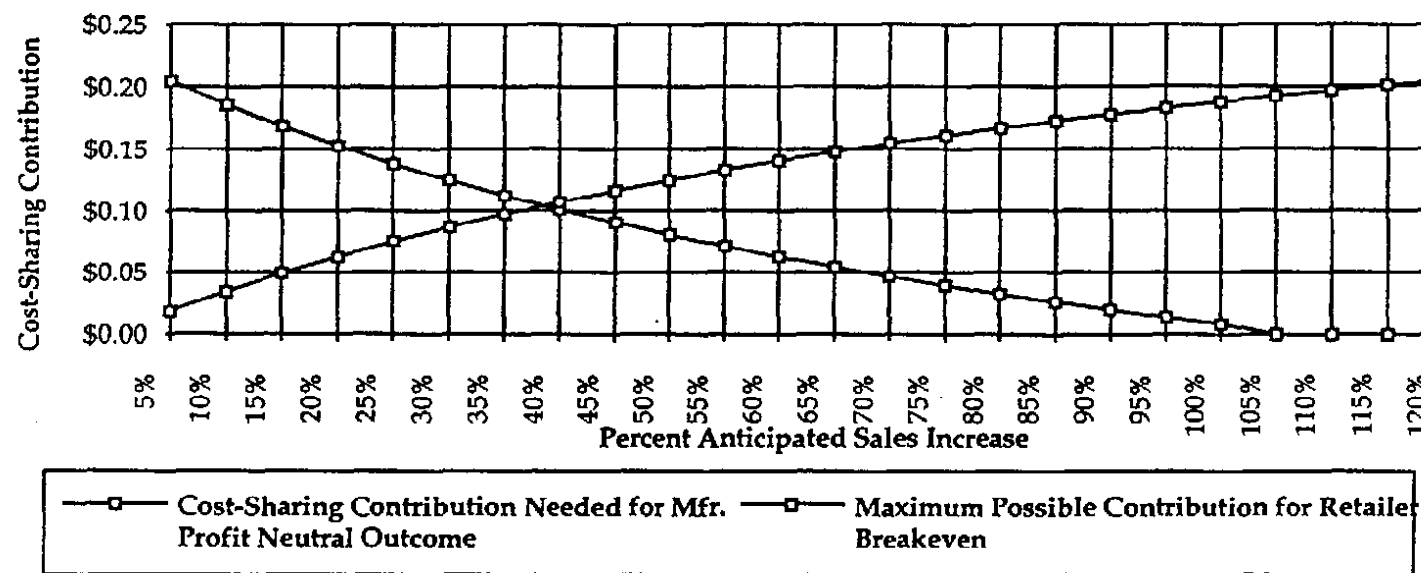
### Effective Cost-Sharing Programs must take into account three factors:

- 1) Promoted sales increases based on the offer value and anticipated factors that affect the incremental gain.
- 2) Mfr. and Retailer Cannibalization/True Incremental Gains:
  - **Mfr.:** True Incremental to the Brand.
  - **Retailer:** True Incremental to the Category & Increased overall ACV.
- 3) Promotion Costs and Cost-Sharing Ratios.

## Cost-Sharing Programs Can Be Win-Win Propositions

- ➔ The key is to structure a promotion where the minimum contribution the Mfr. needs is compatible with what the retailer can provide.
- ➔ The three factors are crucial for this determination

Mfr. Costing-Sharing Requirements and Retailer Maximum Contribution for Breakeven - \$0.30/Pack Buydown



NOTE: Assumes specific Mfr. and Retailer Cannibalization estimates based on the offer and promotion conditions.

## Summary

### Effective Retail Promotions

#### **PROMOTION EFFECTIVENESS REQUIRES**

- ◆ Clear objectives be specified and used to plan promotions.
- ◆ Offer values and pack purchase requirements reflect the normal purchasing patterns of consumers.
- ◆ Offer costs are compared to reasonable expectations about potential sales gains or the likelihood of attaining specific strategic goals to determine if the promotion is profit rational.
- ◆ The requirements for Win-Win outcomes are clearly understood and considered when planning promotions.